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INFO RUCPDC/DEPT OF COMMERCE WASHDC
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RUEHBJ/AMEMBASSY BEIJING 0886
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RUEHPE/AMEMBASSY LIMA 0208
RUEHLO/AMEMBASSY LONDON 1643
RUEHMO/AMEMBASSY MOSCOW 0897
RUEHNE/AMEMBASSY NEW DELHI 0502
RUEHFR/AMEMBASSY PARIS 1476
RUEHOT/AMEMBASSY OTTAWA 0728
RUEHSG/AMEMBASSY SANTIAGO 0207
RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
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SENSITIVE

STATE PLEASE PASS USAID
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DEPT FOR AF/S, EEB/ESC AND CBA
DOE FOR SPERL AND PERSON
DOC FOR ITA/DIEMOND

E.O. 12958: N/A
TAGS: [EMIN](#) [EPET](#) [ENRG](#) [EINV](#) [EIND](#) [ETRD](#) [SENV](#) [SF](#)
SUBJECT: RIO TINTO TAKES A PAUSE FOR BREATH

REF: A) Pretoria 2250
B) Maputo 1051

11. (SBU) SUMMARY: Rio Tinto's Africa Office in Johannesburg told Minerals/Energy Officer and Specialist that Rio Tinto was well positioned to withstand the current global commodity downturn given its long-term reserves, technological expertise, and exploration prowess. They were bullish on doing business in South Africa and Africa, touting new strategy and projects in Madagascar and Guinea. Rio Tinto is developing new mining projects, extending the life of old ones, and looking for new projects in Africa, particularly in southern Africa. The Rio Tinto managers claimed that BHP Billiton's hostile offer for Rio Tinto did not make sense and would likely founder on EU competition concerns. BHP subsequently withdrew its offer due to the recent decline in global commodity prices. End Summary.

Cautiously Positive on Chinese Demand

12. (SBU) Minerals/Energy Officer and Specialist met November 21 with some of Rio Tinto's Africa team based in Johannesburg. Rio Tinto Vice President - Africa Guy Larin, Exploration Manager - Southern Africa Jonte Beswick, and Principal Advisor Community Relations Africa Lisa Dean led the Rio Tinto - Africa team that described the company's views of opportunities and challenges on the continent. They quoted CEO Tom Albanese's reference to the current global and Chinese downturn as a "pause for breath". Albanese was quoted in the press: "Both China and India have large populations and significant trends towards urbanization and industrialization and will continue to be the main drivers for what we would view as a strong, positive story for metals demand in the future." The Rio Tinto team noted that India and China were seeking to acquire assets such as coking coal in Mozambique's Tete Province (Ref B), although the current downturn has caused a "collective pause for breath". Beswick said Rio Tinto's forte is exploration and the company expected to continue meeting its goal of garnering one "tier one" (world-class) discovery per year. He noted that Albanese said that Rio Tinto was reviewing its projects, but remained in an expansion mode, albeit at a slower pace.

BHP's Hostile Offer

13. (SBU) The Rio Tinto staff was dismissive of BHP Biliton's hostile offer (since withdrawn) to acquire the company, asserting that it under-valued the company's assets and strengths. They cited Rio Tinto's strength in exploration and its control of infrastructure associated with iron ore reserves and production. Moreover, Beswick cited EU anti-competitive concerns, particularly in iron ore. Again quoting Rio Tinto's CEO, Beswick said, "BHP needs Rio more than Rio needs BHP." Dean said that Rio Tinto had reached a decision to be more active in making its case to the press and analyst communities. Industry press widely covered Albanese's Qand analyst communities. Industry press widely covered Albanese's upbeat and positive comments made in Madagascar about Rio's staying power. Albanese also noted that biodiversity was poised to become the future emerging issue of the global mining community, citing the higher expectations mining companies were encountering as they sought to attract mine capital of gain access to land for mining.

14. (SBU) Rio Tinto is committed to mining production and processing in both South Africa and Africa in a diverse number of minerals and countries. Marin and Beswick were bullish on Rio Tinto's projects and prospects in Africa. The company continues to extend the life-of-mine at the work-horse Rossing uranium mine in Namibia. Dean noted that it was a new strategy for Rio Tinto to operate in more difficult environments in developing countries, but this recognized that the "low-hanging fruit" elsewhere had already been

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harvested. The net present value analysis must still make sense, including bearish prices and public service commitments. Dean cited the QIT Madagascar Minerals Sand project, which included working with the World Bank and the Madagascar government to develop a substantial port. The Simandou Iron Ore project in Guinea involves partnering with the IFC to build a dedicated 900 kilometer rail line. Rio Tinto is now willing to consider power projects as part of mining ventures. Marin said the company was deeply involved in discussions for the Grand Inga hydroelectric project in the DRC to power a potential associated aluminum smelting project. In addition, Rio Tinto has a 78 percent interest in the Murowa diamond mine in Zimbabwe. Dean said Rio had worked successfully with USAID in Madagascar and elsewhere. She emphasized that commitment to social and environmental programs was fully embraced by the corporation, noting that she had moved from a long career at social NGOs.

South Africa's Operating Environment

15. (SBU) In South Africa, Rio Tinto plans to expand its magnetite and vermiculite production at its Palabora mine (Ref A) and is looking for coal mining opportunities. Richards Bay Minerals' mineral sands operation and smelter are a 50 percent joint venture with BHP. The Rio Tinto team noted some clear challenges to operating in South Africa. They highlighted infrastructure and rail constraints, noting capacity problems at the Richards Bay port and rail ingress. Providing private infrastructure like rail remains a challenge in South Africa given parastatal Transnet's resistance to competition. They said implementation of new mining legislation had been difficult, but the Department of Minerals and Energy was now doing a better job in converting and issuing licenses. Dean said Black Economic Empowerment (BEE) imperatives were a reasonable transformation goal and cost of doing business in South Africa. They accept the fact that Rio Tinto would effectively never exceed 74 percent shareholding in South African projects (leaving 26 percent for BEE partners). Moreover, South Africa's approach was a model for establishing the social license to operate elsewhere in Africa.

Coega Shelved for Three Years

¶6. (SBU) Marin said Rio Tinto's proposed 1000 MW aluminum smelter at Coega on the Indian Ocean was on hold for three years to 2011 waiting for improvement in the power situation. He described the decision as internally mandated from an analysis of inadequate uninterrupted power reserve with resolution dependent on some of the mega coal power plants coming on line and/or SAG approval to proceed. Marin said that the project now envisioned starting in 2011 with the first metal from Phase One in 2013 and the first metal from Phase Two in 2015. The new schedule envisions compressing Qfrom Phase Two in 2015. The new schedule envisions compressing development of the two phases. He noted that the aluminum smelter (inherited from the AlCan acquisition) would provide competition to BHP's aluminum operations in southern Africa, as long as they are separate entities. Marin claimed that Rio Tinto's technology was premier for aluminum and titanium processing.

¶7. (SBU) COMMENT: On November 25, subsequent to the Embassy's meeting with Rio Tinto, BHP withdrew its hostile bid to combine the two mining giants due to the decline in global commodity prices. Rio Tinto's shares subsequently lost 46 percent of their value, but this is a natural and perhaps temporary reaction to a major bidder's decision to walk away from a substantial block of shares. It will take more time for the market to assess the value of the industry's remaining independents in a bearish and volatile commodities market environment. The Minerals/Energy team was impressed with Rio Tinto's commitment to social development and being a public service

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provider in its new African markets. End Comment.

BOST